S. HRG. 98-665

COTTON STATISTICS AND ESTIMATES ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 2085

A BILL TO AMEND SECTION 3A OF THE COTTON STATISTICS AND ESTIMATES ACT TO PROVIDE CONTINUING AUTHORITY TO THE SECRETARY OF AGRICULTURE FOR RECOVERING COSTS ASSOCIATED WITH COTTON CLASSING SERVICES TO PRODUCERS

FEBRUARY 8, 1984

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COTTON STATISTICS AND ESTIMATES ACT

WEDNESDAY, FEBRUARY 8, 1984

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room SR-328A, Russell Senate Office Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Well, let us get started.

This subcommittee is Agricultural Production, Marketing, and Stabilization of Prices. This is a hearing on S. 2085,[1] which is legislation requested by the Department of Agriculture to extend authority to charge producers for cotton classing services, through September 30, 1988.

The bill provides for the collection of classification fees from participating producers or from agents who voluntarily agree to collect and remit the fees on behalf of producers.

Our only witness today will be Vern Highley, Administrator of the Agricultural Marketing Service, U.S. Department of Agriculture. However, I understand the cotton industry supports the legislation and passed a resolution to this effect this week at the annual meeting in Little Rock, Ark.

Mr. Highley, we welcome you to the committee, and ask you to proceed any way you wish. We have a copy of your statement which we will include in its entirety in the record, and we ask you to make any summary comments from it as you wish.[2]

STATEMENT OF HON. VERN F. HIGHLEY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. HIGHLEY. Thank you very much, Mr. Chairman.

I will abbreviate my remarks.

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[1] See p. 8 for a reprint of S. 2085 and p. 6 for a report on S. 2085 from the Department of Agriculture.

[2] See p. 5 for the prepared statement of Mr. Highley.

I am Vern Highley, Administrator of the Agricultural Marketing Service. I have with me Jesse Moore, who is Director of our Cotton Division.

As you stated, this proposal, S. 2085, would amend section 3a of the Cotton Statistics and Estimates Act. In essence, it would allow us to continue to recover the cost of cotton classing services to American cotton producers. Also as you stated, the National Cotton Council has endorsed it. I think it shows a unanimity of support that is behind this proposal.

It is a positive piece of legislation. I think it is timely also, and compatible with the mood that is going through Congress and this administration to recover costs where possible for Government services delivered to the users, to try to reduce Government costs.

We worked with the industry on the proposal, and appreciate its support on it.

As a quick review, sir, in October 1981, we started a progressive transition from Treasury supported moneys for cotton classing and in 3 years were to phase out into a fully supported user fee program, which we have done.

The season we are now concluding is the third year, and it is the year in which we had full user fee support.

The reason that we ask for this appearance today is because the present authority is expiring as of September 30, 1984. We are seeking support for an extension of 4 more years. We also are asking that the authority be continued for agents to collect these moneys for us; such as, cotton gins. We had several hundred thousand dollars saved in administrative costs—what it would have otherwise cost us if we had to apply our own administrative people to make this collection. We have good cooperation from the industry on the collection.

A third point would be that there is a mechanism in the proposed legislation that would keep this fee from becoming excessive. It is tied to the GNP Implicit Price Deflator Index. In other words, we cannot increase the fee any more than the increase in the Implicit Price Deflator Index. Also, we could not increase the fee if we had a 20 percent or more reserve in that trust fund.

Another key part is that it would allow us to respond to requests for special services from producers. And that would not be tied to the other provisions; such as for mechanized cotton classing that is becoming very popular. That process does cost more at this stage, but producers seem to be willing to pay more for it.

Mr. Chairman, I would like to add, in closing, that the bill and the report on investment provisions, which were included in the Omnibus Budget Reconciliation Act of 1981, gave authority to the Secretary of Agriculture to deposit fees collected in an interest-bearing account with a financial institution.

I would like for you to know we implemented this provision of the law last fall, and it is working extremely well. The interest income which we are deriving from this investment is being used to help offset future fee increases.

That concludes my statement, sir, and I will try to answer any questions.

Senator COCHRAN. Thank you very much.

How much is maintained in that account for which interest is earned?

Mr. HIGHLEY. Well, we have authority to also invest fee income from our warehouse activities. Combined, that would be about $3.5 million, which we started with last October. I think we now have that up close to $5 million. Now, the way the money is being invested is through a local bank; we have five $1-million investments on a 12-day basis. And the sum total of that, thus far, has been about $65,000 additional income to the trust fund.

Senator COCHRAN. How many other user fee programs do you have?

Mr. HIGHLEY. We have an assortment, Mr. Chairman. We have our fresh products, where we do grading and inspection on fruits, vegetables, and nuts; also on processed products. We have a trust fund for poultry grading. We have one for the dairy grading program as well as for meat grading.

Senator COCHRAN. Do any of these programs accrue interest that is earned like the cotton program does?

Mr. HIGHLEY. No, sir, they do not. Presently we do not have the authority to do that.

Senator COCHRAN. About how much do you estimate is maintained in those accounts for the other user fee programs?

Mr. HIGHLEY. Possibly, at any one time our working capital or cash on hand would approximate $14 to $15 million.

Senator COCHRAN. So the interest earned from accounts of that size would be significant in helping hold down fee increases, would it not?

Mr. HIGHLEY. Yes, sir, I would certainly admit to that.

Senator COCHRAN. Have you considered requesting permanent authority for cotton classification user fees?

Mr. HIGHLEY. Yes, sir, we thought about that, but in working with the industry, it was felt there should be some time limit set so that it could be reassessed to see if there are other aspects of the program that may need to be addressed.

Senator COCHRAN. Are there any substantial differences between the provisions of this bill, S. 2085, and existing law?

Mr. HIGHLEY. Yes, sir, there is. I would say the main differences are tying annual fee increases to the GNP Index and capping those fees when a 20 percent reserve exists.

Senator COCHRAN. I appreciate your answering those questions that we had, and for being here today and helping us with the hearing. We will be compiling a report that we will make to the full committee, and we hope the chairman will give us a schedule at a reasonable date to discuss this with the full committee.

We have no other witnesses scheduled to appear, and we will adjourn the hearing.

Thank you very much.

[Whereupon, at 2:25 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. VERN F. HIGHLEY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee: We appreciate this opportunity to appear before you today to present the Department's views on S. 2085, a bill "To amend section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers." Accompanying me today is Jesse Moore, Director of the Cotton Division, AMS.

Mr. Chairman, the Department strongly supports enactment of S. 2085. The bill will enable the Department to continue providing classing services to the cotton industry on a fee basis. Present authority for charging fees expires September 30, 1984. Moreover, it will allow us to maintain uniformity in our policy for charging fees for all grading services performed by the Department.

During the last several months, representatives of the Department, working in conjunction with various segments of the cotton industry, developed the provisions contained in S. 2085. We had the utmost cooperation from the cotton industry in this effort and are extremely pleased to report that the provisions contained in the bill have been agreed upon by both the Department and the industry.

The Department began charging fees for cotton classing services on October 1, 1981, pursuant to authority contained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, 95 Stat. 373-374). During the fiscal year 1982 and fiscal year 1983, about two-thirds of the cost of classing for producers was financed by user fees at established rates of 60 cents and 67 cents per bale, respectively. The balance of the cost in those 2 years, including administrative and supervisory costs, was financed by appropriated funds and by proceeds from the sale of cotton samples accumulated by USDA.

In fiscal year 1984, the Department recommended and the Congress approved full cost recovery for the cotton classing program and, accordingly instituted a fee of $1.15 per bale. This action in fiscal year 1984 (1983 crop year) placed all agricultural commodity grading services of the Department on a comparable and full cost recovery basis. As I stated earlier, however, the statutory authority for full cost recovery of cotton classing services expires at the end of fiscal year 1984. Passage of S. 2085 is, therefore, essential in order for the Department to continue to recover the costs of such services and, thus, maintain equitable treatment to all users of commodity grading activities.

Briefly, I will outline the provisions of S. 2085.

First, the bill extends the Department's authority to charge producers for cotton classing services for an additional 4 years, through September 30, 1988.

Second, the bill will continue our authority to collect the classification fees from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. The authority to collect through voluntary agents, which was initially included by the conferees in their statement of intent on the Omnibus Reconciliation Act of 1981, has enabled the Department to save an estimated $800,000 a year in administrative costs. This has been accomplished through direct billing of approximately 2,000 ginners and warehousemen rather than individually to about 50,000 producers that receive our classing services. The industy has been extremely cooperative in this cost reduction effort and we believe it is important to include statutory language that will enable us to continue to use the services of voluntary collection agents.

Third, S. 2085 provides that the uniform per bale classification fee in any year shall not exceed the uniform fee collected in the previous year by more than the percentage increase in the GNP Implicit Price Deflator Index. In this regard we

would use the most recent 12-month period for which official statistics are available. As of the end of 1983 this index was 4 percent over 1982.

Fourth, the bill provides that the uniform per bale fee shall not be increased for any year if the accumulated reserve exceeds 20 percent of the cost of the classification program in the previous year.

Finally, the bill provides that special classification services performed at the request of the producer would not be subject to these restrictions on the calculation of the fee.

Enactment of S. 2085 will result in a continued savings in appropriated funds of $12 to $14 million annually.

Mr. Chairman, this concludes my statement. I will be glad to respond to any questions the Committee may have.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., January 30, 1984.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry
United States Senate, Washington, D.C.

DEAR MR. CHAIRMAN: We appreciate this opportunity to report on S. 2085, a bill "To amend Section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers."

The Department recommends enactment of S. 2085. This legislation will provide authority to the Department to continue to charge producers for cotton classing services after September 30, 1984.

Specifically, S. 2085 extends the Department's authority to continue to charge producers for cotton classing services through September 30, 1988, and provides for the collection of classification fees from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. Fees collected would recover as nearly as practicable the cost of services provided, including administrative and supervisory costs. The bill provides that the uniform per bale classification fee in any year shall not exceed the uniform fee collected in the previous year by more than the percentage increase in the Implicit Price Deflator for Gross National Product as indexed during the most recent twelve-month period for which official statistics are available. Further, the bill provides that the uniform per bale fee shall not be increased for any year if the accumulated reserve exceeds twenty percent of the cost of the classification program in the previous year. Special classification services provided at the request of the producer, such as high volume instrument classification, would not be subject to these restrictions.

Pursuant to authority contained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, 95 Stat. 373-374), the Department began charging fees on October 1, 1981, for cotton classing services, including administrative and supervisory costs. About two-thirds of the cost of classing for producers was financed by user fees during fiscal year 1982 and fiscal year 1983 at established rates of 60 cents and 67 cents per bale respectively. The balance of the cost was financed by appropriated funds and by proceeds from the sale of cotton samples accumulated by USDA.

Legislative history contained in the conference agreement on the 1981 law enabled the Department to collect fees from agents of producers who voluntarily agreed to perform such services, rather then collect directly from producers.

This resulted in a savings in administrative costs in excess of $800,000. The Department, therefore, feels the inclusion of such statutory language in the Cotton Statistics and Estimates Act is in the best interest of the cotton industry for minimizing program operating costs. Such authority, however, should continue to remain permissive in nature.

For fiscal year 1984, the Department recommended full cost recovery for the cotton classing program and, accordingly, instituted a fee of $1.15 per bale. This action in fiscal year 1984 places all agricultural commodity grading services of the Department on a comparable and full cost recovery basis.

Statutory authority for cost recovery of cotton classing services expires, however, at the end of fiscal year 1984. S. 2085 would, therefore, provide authority to the Secretary to continue to recover the costs of such services and, thus, maintain equitable treatment to all users of commodity grading activities. The recovery of such costs is consistent with the Administration's economic recovery program to establish fees for the provision of direct services by the government to identifiable users. This not

only removes the burden from the general taxpayer, but provides for a more efficient allocation of scarce Federal resources.

Participation by producers in the cotton classing program during the first two years of user fees was about 97 percent, unchanged from previous years. We are experiencing about the same level of participation in fiscal year 1984 as well.

The Department has worked closely with the cotton industry in effecting program efficiencies and economies to minimize the impact of the fee. For example, 37 classing facilities have been consolidated into 20 facilities while the quality of service has been maintained or improved. As a result, cumulative savings in personnel, space and utilities have already amounted to millions of dollars. These and other cost-cutting measures are now and will continue to directly benefit the grower through lower user fees.

With enactment of this legislation, we estimate that the annual cost to be recovered, and the continued annual savings to the taxpayer, would be $12 to $14 million.

The Office of Management and Budget advises that enactment of this legislation would be consistent with the Administration's program

Sincerely,

RICHARD E. LYNG, *Acting Secretary.*

98TH CONGRESS
1ST SESSION

S. 2085

To amend section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 11 (legislative day, NOVEMBER 7), 1983

Mr. COCHRAN (by request) introduced the following bill, which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

A BILL

To amend section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3a of the Cotton Statistics and Estimates Act, as amended by the Omnibus Budget Reconciliation Act of 1981 (95 Stat. 373; 7 U.S.C. 473a), is further amended by deleting the first two sentences and inserting in lieu thereof the following:

"SEC. 3a. Effective for the fiscal years ending September 30, 1985, September 30, 1986, September 30, 1987, and September 30, 1988, the Secretary of Agriculture shall make cotton classification services available to producers of cotton and shall provide for the collection of classification fees from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. Such fees, together with the proceeds of sales of samples submitted under this section, shall cover as nearly as practicable the cost of the services provided under this section, including administrative and supervisory costs: *Provided*, That the uniform per bale classification fee to be collected from producers, or their agents, for such classification service in any year shall not exceed the uniform fee collected in the previous year by more than the percentage increase in the Implicit Price Deflator for Gross National Product as indexed during the most recent twelve-month period for which official statistics are available. Further, the uniform classification fee shall not be increased for any year if the accumulated reserve exceeds 20 per centum of the cost of the classification program in the previous year. Special classification services provided at the request of the producer shall not be subject to these restrictions.".

SEC. 2. The provisions of this Act shall become effective October 1, 1984.

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